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The Medical Regulations in China and Its Effects

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In recent years, the medical care system in China was under harsh attacks from both the patients and academics. It is claimed that the price of medical services is too high to be afforded by ordinary people: a common cough could cost four or five hundred Chinese Yuan¹, which is equal to ten days' wage of a blue-color worker. And the medicines sold in the hospital are usually tens of hundreds of times more expensive than their retail price by in the drug stores outside.

Furthermore, people often complain that when having to pay such a high price, it is still very difficult for the ordinary patients to get the satisfactory medical treatments when they get sick: in many big hospitals, there are always long lines; people usually have to pay extra money to the "appointment-dealers"² to get an appointment for those experienced doctors; and it is the usual practice of the patients to pay some extra "red-packet" (cash present) to the surgeons and nurses when they need an operation. Usually, he or she have to wait for a long time (could be as long as several months) to wait for a bed in the hospital to stay for recovery after receiving an operation, even though they are suffering from some serious illness, because there are severe shortage of in-patient beds and long lines in every big hospitals.

Though the big hospitals in the cities are so crowded, many doctors in the community hospitals and rural clinics are in the same time complaining that they facing difficulties to have enough customers. In fact, many rural hospitals were bothered by

¹ It is often reported by the media that people usually pay hundreds of Chinese Yuan for an common cough; and "four or five hundred Yuan for treating a cough" is my own experience.

² "Appointment dealer" refers to those professionally waiting in the line to get the appointment and sell them to other patients with a extra profit. Sometimes they don't get the appointment by waiting in the line, instead by using their good connections with the hospitals or the doctors.

financial difficulty because they can't attract enough customers. It seems that few rural residents are willing to go the more convenient and cheaper community hospitals nearby, instead, many people are inclined to go directly to the big hospitals in the big cities faraway, even though which would cost them lots of money on both medicine traveling, and lodging.

Many doctors in big hospitals which are usually the objects of criticisms from the customers that disagree with the complaining that medical service is too expensive and too difficult to have access to. Their contention is that Chinese customers are irrationally flooded into a few big hospitals even for such common illness like cough and fever. They keep explaining to the patients that it is not really necessary to go the big urban hospital directly once they feel sick. Instead, they suggest that the patients go to the community hospitals nearby for treatment, and follow the suggestions of the community doctors on whether the problem is serious and whether they should be transferred to better hospitals. However, it seems that most patients don't following such suggestions: the big city hospitals are still crowded with first-time patients faraway and the remote rural and community hospitals still be ignored.

These phenomenon seem to be strange and need explanation. Why does medical service seem to be so expensive and so difficult to access? Why are the big hospitals so crowded while the rural and community clinics are usually ignored by the patients, or why are the patients "irrationally" prefer the better and more expensive big hospitals to the cheap and convenient community clinics?

The Chinese government is trying to solve those problems. In 2009, the central government promulgated a series of new policies aiming to improve the efficiency of medical service system and to reduce the price of the medical service and make it more convenient. For example, it has been decided that the government will put more fund into the hospital and medical insurance fund to make the price cheaper. It will impose stricter price control upon the basic medicine, and prohibit the hospitals to

make profit from selling the medicine³. Will these policies take effects as expected by the government? What consequences shall we expect from these policies?

This paper aims to address the above questions. The rest of it is organized as follows: part 1 describes the debate on why the medical services are too expensive and how to solve the problem. Part 2 describes the basic problem of the current medical service system in China: the severe shortage of medical services compared to the rapidly increasing demand for them due to the economic growth and the people's growing desirable for more and better medical care. Part 3 explores the reasons why the supply of medical service could not meet the high rising demand. Part 4 further describes the new policies which was introduced last year by the Chinese government and their possible effects. Part 5 concludes.

1, the Debate on the Source of Current Problem

There has been long debate on the reasons and solutions of the current problems in the medical service system. The hottest issue is why the price of medicine and other medical treatments seem to be so high, and why it is still very difficult to get a relatively good medical service at such high price.

There are two harshly conflicting explanations about this question. The first one attributes the high price to the lack of governmental investment into the hospitals after the economic reform which began in 1978. Before the economic reform in 1978, all the hospitals in China were publicly owned. On the one hand, the finance of the public hospitals was fully supported by the government; and the management, personnel were also controlled by the government. On the other hand, the hospitals provided very cheap medical services to the patients, the patients had to pay only a small amount of the medical costs: the others are covered by the medical insurance

³ For details of this reform, see, The Central Committee of the Chinese Communist Party, The State Council, *The Advices on Deepening the Reform of Medical and Sanitary System*. http://www.gov.cn/jrzq/2009-04/06/content_1278721.htm (last updated April 6, 2009).

fund.

During the market-oriented reform, the government stopped its full financial support to the public hospitals. It is estimated that the government only provide 3-5% percent of the total operation costs of the public hospitals today. The hospitals have to raise the other 95-97 % by charging the patients. Many scholars blamed this policy. In their view, if the government don't take it responsibility to fully finance the public hospitals, they have to charge lots of money to the patients, and this is the main reason why the public hospitals are always trying hard to sell those extremely expensive medicine and treatments to the patients. They further argue that since there is highly information asymmetry between the doctors and patients, that is to say, the doctors are in an obvious information advantage compared to the patients, thus, if they want to cheat the patients with unfairly expensive treatments, the patients have no way to realize this and could easily be cheated.

Therefore, they argue that the solution to the high medical price should only be solved by returning back to the policy of the pre-reform period: that the government should continue to fully finance the public hospitals, and in the same time require the hospital to provide their services and medicine with low price. In the meantime, they also argue that government should put more money to the medical insurance fund, thus relieves the patients from heavy burden of private payment. In sum, these scholars attribute the high price to the market reform in the medical area. They believe that medical service is public good and should be provided by the government, not by the market⁴.

However, some other scholars hold different view. They argue that the free market should not be responsible for the current costly medical services system. To put it more accurately, they actually don't agree that the current medical market is a free market, instead, it is a highly regulated market by the government. First, there said to

⁴ For example, see Ge Yanfeng, Gong Sen, *China's Medical Reform: Problem, Root and Solutions*, China Development Press, 2007.

be a strict entry regulation upon the industry, and it is difficult for the private funds to invest in hospitals; second, there is strict license regulation for doctors, which has led to the limited amount of doctors compared to the rapid increasing demand for medical service. Third, the price regulation in the medical market is said to be the main reason that it is difficult to get medical services. Thus, they argue that it is necessary to cancel the various regulations upon the medical market, or we could not lower down the high price of medical service⁵.

Which is the better explanation for the reasons of soaring price in medical service market?

2, the Shortage of Medical Services and the Reason

In my view, to better understand why the medical service in China is so expensive, we should first be aware of a basic fact, that is, the stagnant supply of medical resources (hospitals, doctors, medical facilities, etc.) and the soaring demand of Chinese people

During the past nearly 30 years, China's economy has developed with a high speed of about 10% per year. When the people became much more wealthier than before, their demand for medical service was also soaring. However, an examination of the data of supply of medical service reveals that in the past years, the supply of medical service was only growing with a much slower speed than that of the demand for them.

For example, from year 1978 to 2005, the expenditure for medical service in China had grown for 198 times, while the amount of doctors in the same period only increased for only 2.55 times, and the beds for inpatients increased for only 1.405 times. The number of hospitals increased for only 2 times (see chart 1 to chart 4⁶).

If compared to the rapid increase of demand for medical service (measured by the expenditure for medical service), the growth of both the number of doctors and

⁵ For example, see, Zhou Qir-en, *Who Shall the Patients Resort To*, The Peking University Press, 2008.

⁶ Data source: *Yearbooks of Chinese Health Statistics*. Beijing: Press of Peking Union Medical College.

inpatients beds were astonishingly slow. In theory, when the demand for certain goods increase (holding other factors constant), the increased competition for the relatively few goods would push the price up; the higher price would encourage more investment to flood into the supply market, more supply of the goods would finally pull the price down again.

However, this law of market competition seems not applicable in the medical market in China: the soaring medical demand never attract more doctors to step into the market. And it is especially difficult to understand why the growth rate of inpatient beds were only 1:143 of that of the expenditure for medical service. When so many patients are waiting in a long line for a bed, and they would willing to pay a high premium for a bed, why the hospitals would not charge them a high price and use the extra income to buy more beds to accommodate more patients?

Chart 1, the growth ratios of personal medical expenditure, doctors, hospitals and inpatient beds between 1978 and 2005

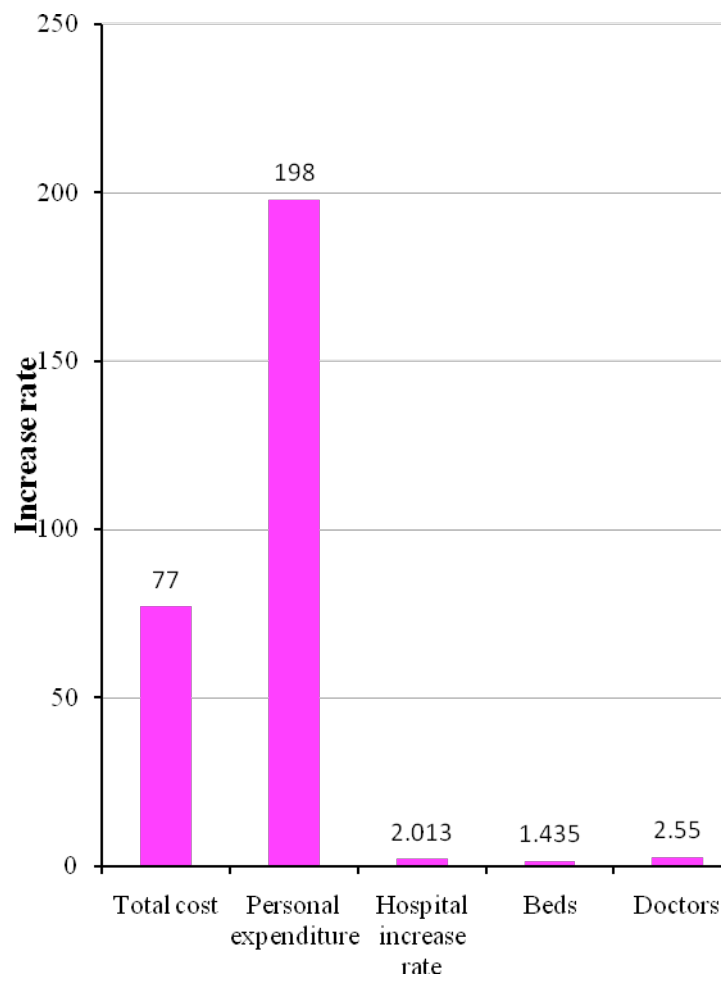


Chart 2, the growth curves of personal medical expenditure and doctors between 1978 and 2005

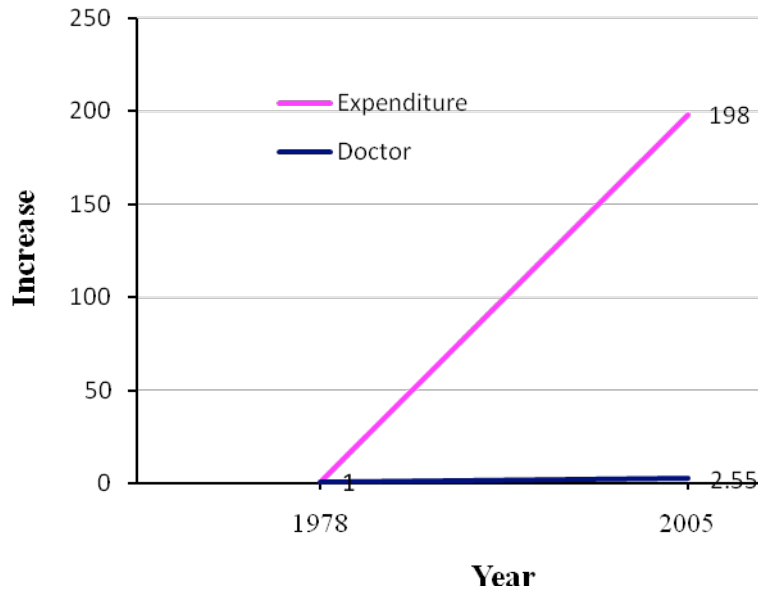


Chart 3, the growth curves of personal expenditure for medical service and inpatient beds between 1978 and 2005

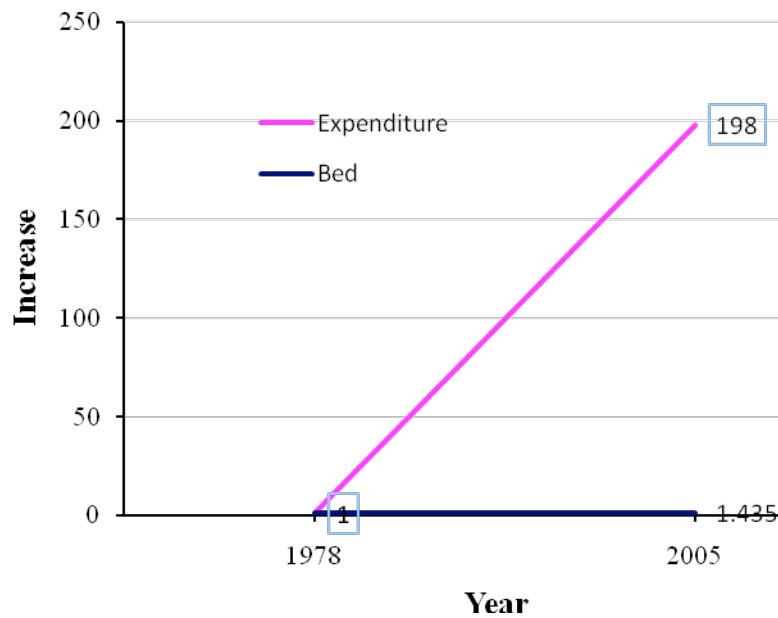
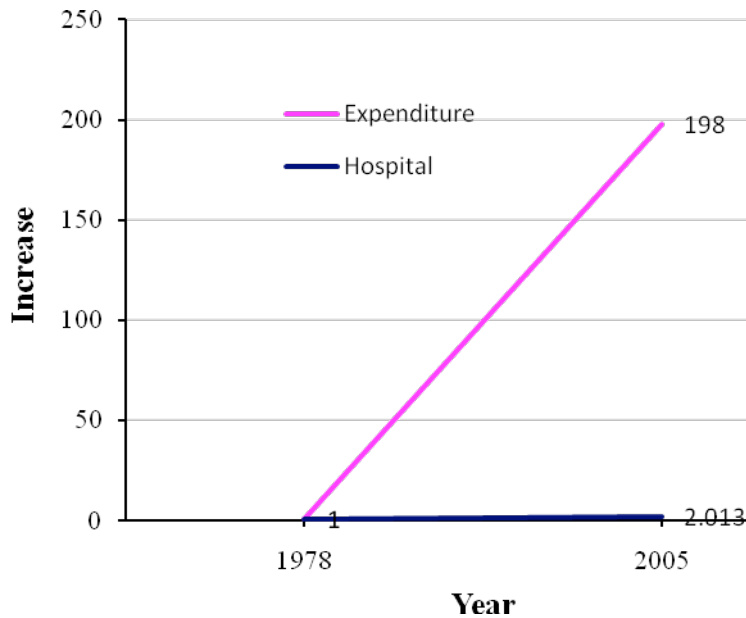


Chart 4, the growth curves of personal medical expenditure and the hospitals between 1978 and 2005



If compared to other industries, we would be more aware of the astonishing slow growth of the supply of the medical facilities. Let's take a look at the restaurant industry in China. Why do I choose the restaurant industry as the object of comparison? This is because the supply of restaurants is composed of two types of resources: the human capital of cooker and the pecuniary capital (money, for purchase facilities such as house, dinner tables and chairs, and the like. It usually takes a long time to increase the supply of cookers, because to educate an excellent cooker usually takes time; while it takes little time to increase the supply of facilities in the restaurants, for all the facilities (such as tables, chairs, house, kitchen appliances) can easily be purchased from the market; Similarly, it may takes some time to increase the supply of good doctors for a society, for it is not so easy to educate an excellent doctor, while it should not take much time to increase the medial facilities such as the hospital building, in patients beds, and the like.

By examining the data, we found that in the past 27 years (from 1978 to 2005), the annual expenses that Chinese customers incurred for eating at restaurants had increased for about 112 times(see, Chart 5). Compared to this figure, it is understandable that in the same period, the medical expenses had increased for 198 times: if people are willing (and able) to spend so much money (112 times more than

27 years ago) in eating today, it is reasonable that they would also like to spend double amount of money in medical care: life and health are usually deemed to be more valuable than food (unless in an extremely poor society where food is extremely scarce),

However, though the food expenses in restaurants had increased for so many times, no people or media are complaining that the food is too expensive to afford for ordinary people, as they are complaining so for the medical care. Why? This is because in the same time period, the supply of restaurants and cooks were also increasing very rapidly. For example, the number of restaurants in the past 27 years had increased for about 34 times, and the number of restaurant cooks also increased for about 17 times(see chart 5- chart 7⁷), which is a growth speed of one fifth of that of the food expenses. Considering that in the same period, the income index of ordinary people also increased for about five or six times (see chart 8), the income of cooks should also be expected to increase to a similar level; thus, we can get to the conclusion that the growth rate of demand(measured by the expenses on food in restaurants) is not obviously higher than the growth rate of the supply of food restaurants. This explains why people don't feel that eating is becoming more expensive than before, and it also illuminate the basic reason of the expensiveness of medical service: the growth rate of demand for medical service has been much more higher than that of the supply of medical service (represented by hospitals and doctors). In another word, there is a severe shortage of supply compared to the fast growth of demand for medical service in China.

Chart 5, the growth ratios of diet revenue(expenditure), chef and restaurant in China from 1978 to 2005

⁷ Data source: Zhou Qir-en, *Who Shall the Patients Resort To*, The Peking University Press, 2008.

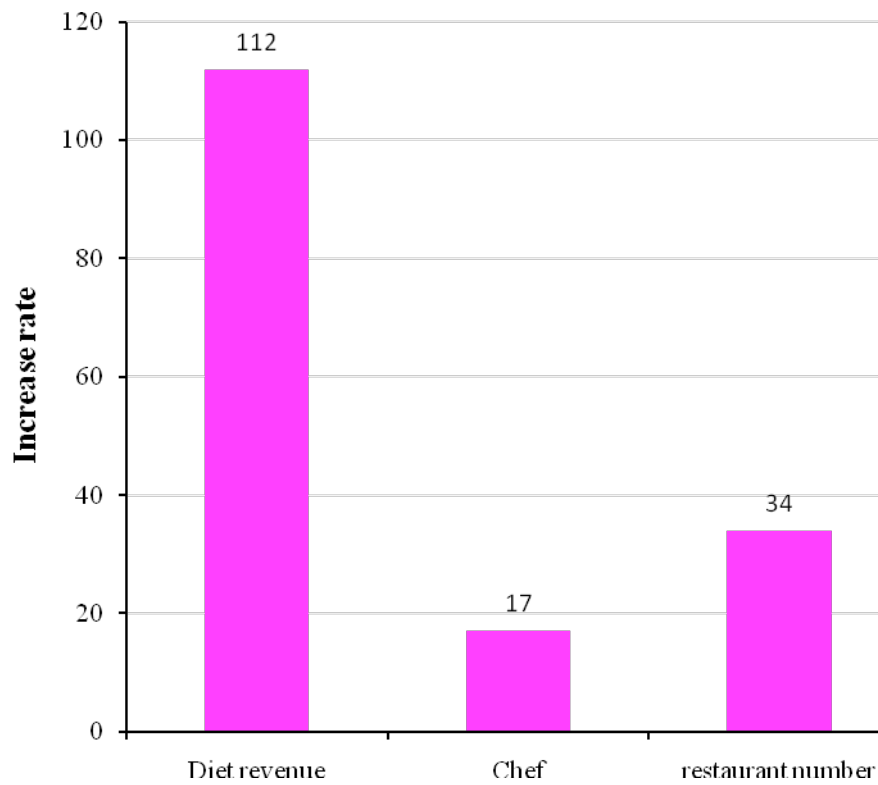


Chart 6, the growth lines of diet revenue(expenditure) and restaurant in China from 1978 to 2005

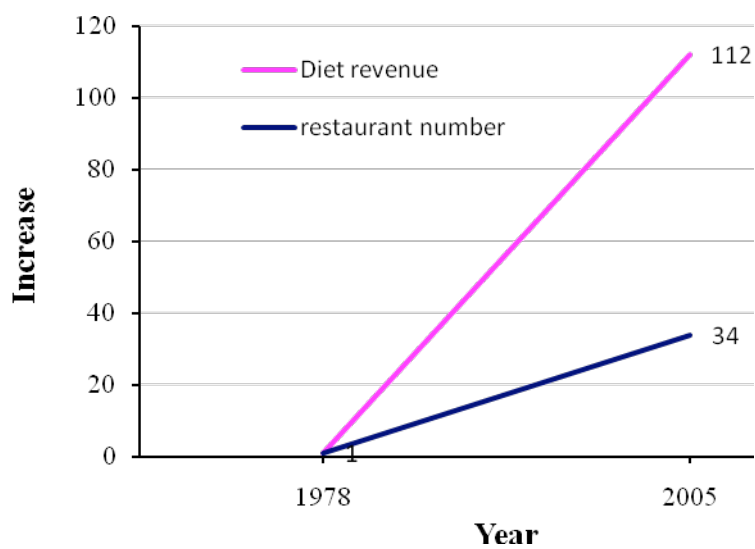


Chart 7, the growth lines of diet revenue(expenditure) and chef in China from 1978 to 2005

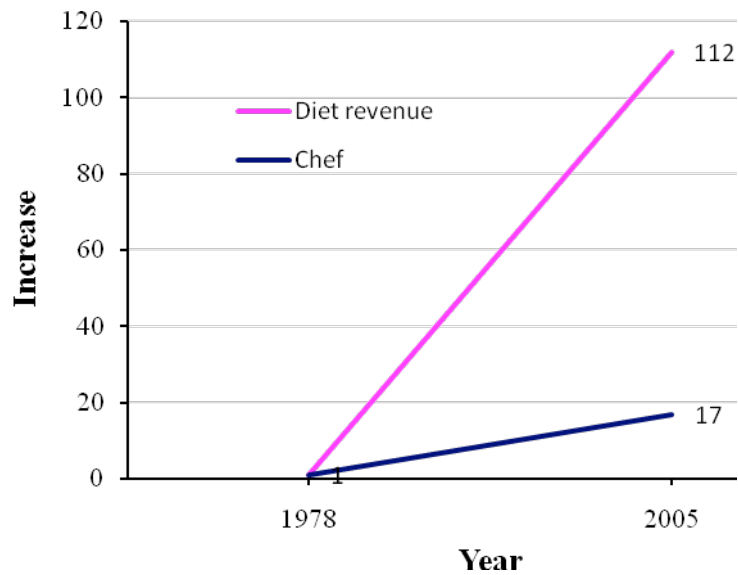
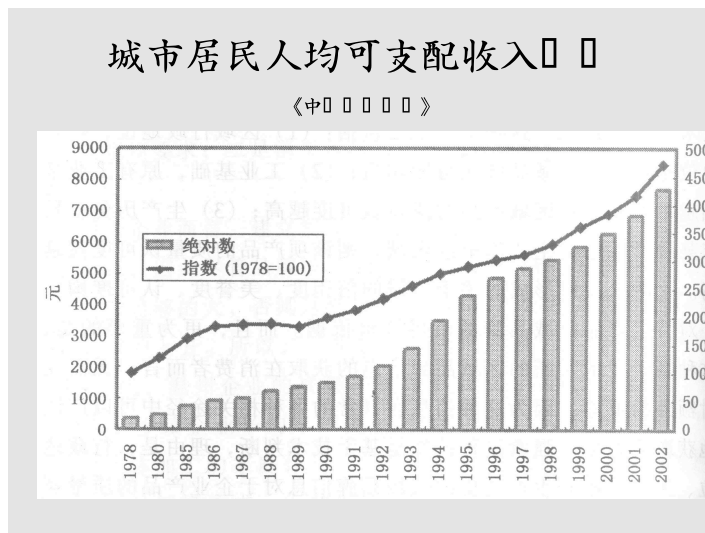


Chart 8, The growth line of income index of Chinese urban residents from 1978 to 2002⁸



3, What Had Caused the Shortage of Medical Resources?

The question is: why the rapid growing demand for medical service didn't encourage

⁸ Data source: *Yearbooks of China Statistics*, Beijing : Press of China Statistics.

more capital and human resources to flow into the medical service market?

In my view, this is because some policies of the government has impeded the flow of resources into the medical market to produce more medical services. These policies are as the follows:

First, the entry regulation for doctors. Aiming to guarantee the quality of doctors, like many other countries in the world, Chinese government introduced entry regulation for doctors. To get a license, a doctor candidate must first get an degree from a medical school; second, he or she must work in an established hospital as a internship doctor for several years before he or she is qualified to take the license exam. Needless to say, not all the candidates can pass the exam.

When passes the exam, he or she will be granted a license, however, it is not so easy to find a hospitals to accept him or her as a doctor there. If he or she could not find a hospital to hire them, they can not work as an independent doctor, for there are also strict regulations for running a private medical service business. The laws has certain requirements on private business, such as the number of the experienced doctors in the private clinic or hospital, and the quality and quantity of facilities like diagnosis machines, number of in-patients beds, and so on. There is no way for a young doctor who has not got enough experience in established hospitals to set off his own business.

Besides, there is also regulation that prohibit a doctor to work in more than one hospital. This policy also restricts the possibility that some low-level hospitals can hire the experienced doctors in big hospitals to work for them in their spare time. This policy also prevent the doctors to fully explore their ability to increase the supply of medical services to the patients.

Although it may be necessary to impose some sort of entry limitations to screen the quality of doctors, the side effect of such strict entry limitation is also obvious and

undesirable.

Second, the current price regulation on the medicine and other medical treatment is also playing an important role on the severe shortage of medical service supply compared to the soaring demand.

Currently the government has comprehensive price regulations upon both doctors, medicines and other medical services. For example, since nearly 90% of the hospitals in China are public owned, it is easy for the government to control the salaries of doctors in those public hospitals. Generally speaking, the salaries of the doctors in the public owned hospitals are composed of two parts: the first part is the “base wage”, that is the regular wages which is usually related to the seniority of a doctor. A senior doctor in a hospital usually earn more than a junior doctor, however, the gap of their base wages is not very big. Furthermore, base wages of doctors of the same level of seniority in different hospitals across the country seem to be similar, even though they are in different regions.

The second part of the doctors' salary could vary largely. This is a kind of share tenancy contract arrangement, which is widely existed in nearly all the public hospitals. This policy is to encourage the doctors to make money as much as possible for the hospitals they belong to. More money a doctor can make for his hospital, more money he will get from the hospital. This policy has led to a large disparity of income between doctors in different hospitals, or even in different departments of the same hospital.

The third part of doctors' income is the “commission”(kickback) from the medicine producers or retailers. Because patients would usually have to rely on the doctors to decide which medicine they would take, doctors can greatly help the medicine producers to increase the sale of their products. Thus, many medicine factories would pay doctors in return for their help to recommend their medicine to the patients. There widely exist share contract between doctors and medicine producers.

The government could only control the first part of the doctors' salary, i.e, the base wage. However, there is actually no way for them to detect and stop the share arrangement between doctors and hospitals, or doctors and drug producers. Although the government once tried to suppress the practice of commission arrangement between doctors and drug producers or retailers, and even punished those doctors who get commission as "commercial bribes", the practice is still rampant in many big hospitals.

Besides the doctors' salary, price of medicine is also under comprehensive control. In recent years, the National Committee of Development and Reform, the department of the central government in charge of comprehensive economic regulation and price control, has issued dozens of new price control policies for new drugs. However, each time they put more drugs under price control, the drugs under price control were soon found to disappear from the market, because no doctors would like to use those regulated drugs, and therefore no producers would like to manufacture them.

Other service items were also under price control, such as the charge for various operations, in-patients bed, the various medical treatment apparatuses, to name a few.

These comprehensive price control has to a large extent limited the legal income of the doctors and the hospitals, which reduced the incentive for potential doctors to enter into medical school to be a doctors. Fewer and fewer people are willing to be a doctors today. Some old doctors complained to the media that when they were young, doctors usually came from families with high social status, such as the professors, doctors, and officials, etc. However, today, few students in the medical schools come from the upper-class or wealthy families, most students are from rural or poor families. And today, doctors usually dissuade their children to be doctors. This has contributed to shortage of doctors, especially those with high competency.

Besides the shortage of doctors, another effect of the price control is the distortion of relative prices between the service of good hospitals and that of the not-so-good

hospitals. The price control has reduced the price gap between these two types of hospitals, and the incentive of the patients to go to the better hospitals was encouraged. This is the reason why the big hospitals in the big cities like Beijing, Shanghai, Guangzhou are always crowded, and there is always a long line for the service of senior doctors in these big hospitals, while in the same time, many rural or community hospitals often don't have enough patients to visit them. The good doctors have an increased workload, while they don't have their legal income increased accordingly, thus their incentive to provide their service are also frustrated.

The last reason of the severe shortage of medical service is the discriminatory policies of the government against private hospitals. In China, hospitals are divided into two categories, that is, for-profit hospitals and non-for-profit hospitals, and are treated with different tax policies. The non-for-profit hospitals are exempt from tax obligation, while for-profit hospitals are not. All the public owned hospitals are non-for-profit hospitals and don't have to pay tax.

However, under such policy, the potential investors of private hospitals are facing a dilemma: if they choose to register as a for-profit one, they have to pay as much as tax as the ordinary commercial enterprises, which is about 25-30%, such heavy burden would put them in an obvious disadvantage against the public hospitals; if they choose to register as non-for-profit hospital, they are not allowed to get profit from the business, and all the profit earned from the hospital would have to be used as new investment into the expanding of the hospital's business. The investors of the private hospitals actually still have some way to get back or enjoy some profit, for example, they make consumption for their personal joy in the name of the business expenses of the hospitals), however, the incentive to invest in private hospitals have been suppressed to some extent by such policy.

Another discriminatory policy towards private hospitals concerns the government-run medical insurance. The Chinese government set up a mandatory medical insurance system which covers most urban residents, especially all the government employees

and state-owned enterprises and organizations such as public universities. However, few private hospitals are covered by the medical insurance system, which make them much less attractive to the patients, even though they may have provided equal or better services than those public hospitals.

For example, although the Cheng-guang Hospital, the first private hospital run by Taiwanese in Shanghai, has very good doctors and facilities, for many years most of their patients are Taiwanese who are doing business in the Mainland, few locals would come to the hospital, except for take regular body examination. Why they only take body examination in this private hospital? Because the hospitals provides better service than those public hospitals, and regular body examination is not covered by the medical insurance. This case illustrates how the current discriminatory insurance policy has put the private hospitals in a disadvantage in the competition with public hospitals. Due to the policy discriminations, there was not much private fund invested in hospitals in the recent years.

4, the 2009 Medical Reform and Its Possible Effects

The central government did realize that the shortage of medical service is the main reason for the expensiveness of medical service. Therefore, in the recent medical reform in 2009, the central government promulgated a series of new policies in order to cure the problem. The following are the main points of the 2009 reform:

First, to provide more financial support to the hospitals and the patients. According to the new medical financial plan, the government would raise 850 billion Chinese Yuan in the next three years for the medical reform; two third of the money would be used to fund the public hospitals for their infrastructures and medical services, and the remaining one third would be used to finance the medical insurance fund. With this new big cake, the government was trying to respond the criticism that it did not provide enough financial support for the medical industry. It is expected that this new fund would help the public hospitals to provide more and better medical services,

and help to reduce the medical expenses that the customers had to pay.

Second, to remove the medicine selling departments from the hospitals and get them transformed into independent medicine stores. Under the new policy, the public hospitals were not allowed to sell medicine by themselves; instead, the patients could take the prescriptions to buy the medicine in any medicine stores they like. This policy is designed to eliminate the previous practice of the hospitals of making big profits by selling medicine at a much higher price than reasonable.

Three, the Ministry of Health, one of the several regulators would organize the specialists to work out a basic medicine list⁹, which would consist of all the regular and mature medicines for the common and “serious” illness. The price of those medicines that are included into the list would be strictly regulated; and the government would preside the universal medicine auction procedure, and choose those deemed best and cheapest medicines for the public hospitals.

Will these new policies lower the price of medical service?

As I have discussed before, the basic reason that the medical service is too expensive is that the various entry regulation policies have impeded the doctors and private investors to increase their investment in the medical industry. If the amount of doctors and investment don't increase to meet the rapidly growing demand for medical service, the price will not be reduced.

Instead, I expect that the 2009 new policies could cause the following side-effects:

First, under the current regulatory regime, the entry of any new hospitals and doctors must be approved by the regulators. Although the government will invest about 850

⁹ See, Ministry of Health of P.R.C, *Notice on the National Basic Medicine System (2009, the No. 78 file)* .

billion into the current medical system in the next three years, this fund will only benefit the incumbent hospitals and doctors, it will not be used to set up new hospitals or educate more doctors; therefore, the situation that too much demand chases too few hospitals and doctors will not change, and we have no reason to expect that the price of medical service will decrease. Moreover, since about one third of the new fund will be used to finance the patients (through medical insurance), we should expect that the increased income of the patients will lead to stronger demand for medical services, which will definitely make the shortage of the limited medical resources more severe, and the price of medical service could be pushed to an even higher level.

Second, to remove the medicine department out of the public hospitals could not stop the doctors from making profit; neither could the policy of regulating the price of medicines in the “basic medicine list”. Facing the soaring demand from the crowded patients, the doctor can easily avoid the price regulation.

In the recent years, the number of “new medicines” in China was increased rapidly: thousands of “new” medicines were “invented” each year by the domestic drug corporations, and many medicines which were proved to be effective and cheap were disappeared from the market, why? In recent years, the government kept including more and more medicines into the list of price regulation. Many medicines disappeared from the market soon after they were included into the price regulation. This is because the doctors didn’t willing to use them, and declined to recommend them to the patients. They would rather use those medicines whose price are not regulated. Accordingly, to meet the desire of doctors to use unregulated medicine, many drug corporations are busily inventing new medicines. These new medicines were actually the old ones, except for some minor change. For example, to change the package form from capsule into box, to add some unnecessary ingredients into the old drugs, and so on. Sometimes to get the so called new drugs approved, the drug corporations had to lobby or give bribe to the FDA regulators. Once the “new medicine” was successfully approved and enter into the market, it will soon be

adopted by the hospitals, and old one will be replaced.

There is almost no way for the regulators to stop the hospitals from adopting such kind of strategy, because there are so many new drugs and drug manufactures in the market, and they could not find out which drugs are actually designed for regulation-avoiding purpose.

How about remove the drug department from the hospitals and prohibit them from selling drugs? The hospitals would still find other ways to make money. For example, they can recommend some new treatment machines to the patients, or require the patients to take more (may be unnecessary) types of medical test. The medical expense will not be reduced.

What's more, regulating the price of regular or necessary medicine and treatment will drive the doctors to use other unnecessary medicine or treatments. This is not good to the patients' health, and will cause the waste of limited medical resources. For example, according to my investigation, when the new regulation rule was revealed that drug department would be removed from the hospitals, a big psychiatric hospital quickly doubled the price of its "accessory treatments". What are accessory treatments? It refers to such treatments like organizing the patients to conduct activities such as writing, singing, playing games, and so on. To the hospitals, the cost of organizing such activities is very low, however, they could charge a high price to the patients. Meanwhile, the hospital also lobbied the local medical insurance management bureau to include these items into the coverage of medical insurance. Thus, they patients would be like to accept the expensive "treatments". This case demonstrates that under the price regulation, the more money the government put into the medical insurance pool, the more economic waste would incur, for the resources would be driven to those unessential or unnecessary treatments which are not under the price regulation.

This result is also demonstrated by a case study of Japan. The study reveals that due to price control, the most talented group of Japanese doctors had been driven into the

unregulated field of cosmetic surgeries¹⁰.

Another serious problem that the price regulation has caused is the effect of “adverse selection” among the doctors, that is, the excellent and honest doctors will suffer loss and retreat from the market, while the less-excellent and dishonest doctors will stay and make big profits. Why would this happen? On the one hand, because doctor’s salary and price of their service are both heavily regulated, the more excellent a doctor is, the more pecuniary loss will he suffer. For example, some senior doctors in the Xie-he Hospital, one of the best hospitals in China, complained to the media about their situation: because their salaries are too little, many retired doctors found themselves in an awkward financial situation. When a famous old doctor retired, he found that he could not afford the surgery fee for his wife, though what all was needed was only several ten thousand RMB. It was his old colleagues who raised the money for his wife’s surgery¹¹. The low income of the good doctors has discouraged many talented young students from applying for medical school.

On the other hand, the price control policy benefited those less talented doctors, for the price control increased the demand for medical service and attracted more patients for them, and since they could not get salary as high as those talented doctors in the free competition, the price regulation cause less loss to them. Therefore, the less talented doctors were inclined to stay while more talented ones were inclined to leave the hospitals for more profitable business such as drug selling. It is reported that recent years, more and more graduates of medical schools chose to work in drug producing or retail companies.

Even worse, the price regulation has created more opportunities for dishonest doctors to make money by rent seeking behavior. Facing the big demand created by price regulation, they could lure the patients to buy those expensive medicines and

¹⁰ Ramseyer, J. Mark. "The Effect of Cost Suppression Under Universal Health Insurance on the Allocation of Talent and the Development of Expertise: Cosmetic Surgery in Japan," 52 *Journal of Law and Economics* 497 (2009).

¹¹ Gao Yanping, Liberating Doctors, *Oriental Outlook*, May 7, 2009.

treatments, and then get big kickbacks from the medicine retailer or manufacturers. Moreover, because there is always a long line waiting for surgeries or other treatments, the doctors can expect pecuniary presents from the patients to get earlier or better treatments.

5, Conclusion

This paper aims to explain why the medical services are so expensive in China, and what consequences would be caused by the new policies of the 2009 medical reform. My argument is that the various entry limitation policies prevent medical resources from flow into the medical service industry, which is the main reason why the medical services are so expensive. Since the new reform doesn't aim to reduce entry limitations, the monopolizing status of the incumbent public hospitals will not be weakened, and the soaring price of medical service will probably not be pull down. The price regulation policy will only lead to the effect of adverse selection among the doctors, those doctors with high competency and high morality will suffer from the price control, who incentive to work honestly and diligently will be frustrated; while those doctors who are less competent and more dishonest will survive in the new regulation system.